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HOME COUNTRY UNCERTAINTY AND THE INTERNATIONALIZATION-PERFORMANCE RELATIONSHIP: BUILDING AN UNCERTAINTY MANAGEMENT CAPABILITY*

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HOME COUNTRY UNCERTAINTY AND THE INTERNATIONALIZATION-PERFORMANCE RELATIONSHIP: BUILDING AN UNCERTAINTY MANAGEMENT CAPABILITY

Abstract: We analyze the impact of internationalization on firm performance in emerging economies, proposing that this relationship varies with home country uncertainty. Specifically, building on organizational learning theory and the institution-based view, we argue, first, that in emerging markets internationalized firms perform better than domestic firms. We then propose that this relationship is stronger for firms based in emerging countries with higher contextual uncertainty in the form of higher corruption and political risk. The reason is that by being exposed to high political risk and corruption at home, emerging market firms develop an uncertainty management capability that helps them face the challenges of internationalization. We finally propose that although firms perform better when they expand in the nearby region, the uncertainty management capability has a higher impact when they expand outside their home region.

Keywords: Internationalization, performance, uncertainty, political risk, corruption, emerging markets, multinational firms, Latin America, region.

INTRODUCTION

The relationship between internationalization and performance has been the subject of a lively debate (Contractor, Kundu & Hsu, 2003; Marano, Arregle, Hitt, Spadafora, & van Hessen, 2016). On the one hand, operating across borders can benefit firms in different ways. Some reasons are that international firms achieve economies of scale, obtain access to new resources and capital, and acquire new capabilities (Bartlett and Ghoshal, 1989; Dunning, 1993). On the other hand, internationalizing can also be challenging. Some of the reasons are that firms face new customers and different regulatory environments and need to learn and undertake additional investments (Hymer, 1976; Johanson & Vahlne, 1977; Zaheer, 1995). As a result, the literature which analyzes the relationship between internationalization and performance has debated the nature of the shape of such relationship, with studies finding positive, negative, U-shaped, inverted U-shaped and sigmoidal relationships (see summaries of the literature in Glaum & Oesterle, 2007; Contractor, 2012; Marano et al., 2016). Despite the wealth of analyses, however, there is still a debate on the drivers of the actual relationship between the level of internationalization and performance (Hennart, 2012). Additionally, many studies have analyzed firms from advanced economies, which may have confounded some of the relationships, because such firms tend to have particular home-based advantages that support their internationalization; in contrast, emerging economies' enterprises have to deal with weak or dysfunctional institutions (Aulakh, Kotabe & Teegan, 2000; Contractor, Kumar & Kundu, 2007; Gaur & Kumar, 2009; Khanna and Palepu, 2010; Peng, Wang, & Jiang, 2008). This may alter the relationships and logic identified in previous studies.

We contribute to the literature by analyzing the impact of internationalization on the performance of emerging market firms, proposing that this relationship changes with home country uncertainty. We draw on organizational learning theory (Fiol and Lyles, 1985; Argote, 1982) and the institution-based view (Peng, 2002) to explain three arguments. First, we explain how emerging market internationalized firms perform better than domestic firms.

Second, we propose that this relationship is strengthened for firms based in emerging countries with higher uncertainty, specifically higher corruption (Beets, 2005; Tanzi, 1998) and political risk (Henisz, 2000). The reason is that these firms develop an uncertainty management capability, whereby home country uncertainty leads firms to go through organizational learning and become apt at surviving and thriving in emerging markets where regulatory frameworks and conditions are not very transparent and may change abruptly (Khanna and Paleup, 2010), becoming flexible, adaptable and resilient (Ciravegna & Brenes, 2016). Their capability to deal with political risk is useful when internationalizing as they face political systems and conditions that differ markedly from those at home, enabling them to adapt better to these different political systems as well as to manage abrupt changes. Their capability to face corruption in their home context becomes useful to manage uncertainty in foreign markets regarding the application of rules and regulations.

Third, we propose that although firms perform better when they expand in the nearby region, the uncertainty management capability has a higher impact when they expand outside their home region. Firms tend to expand within the same region because they can benefit from entering markets that are similar to the home country along multiple dimensions, as first postulated by the incremental internationalization model (Johanson and Vahlne, 1977) and later by scholars of regional studies (Rugman & Verbeke, 2004). Countries differ within regions, but inter-regional differences are greater, suggesting that outside of the home region a firm will find it necessary to adjust more than when operating in its home region (Rugman & Verbeke, 2008; Verbeke & Kano, 2016). However, unlike firms based in advanced economies, firms based in emerging markets may suffer from both country-level and regional-level location disadvantages. The reason is that they are likely to be based in regions affected by high uncertainty, which entails high costs of doing business (Hennart, 2012; Hymer, 1976), as well as unsophisticated factor markets, which limit the scope for specialization and increase the cost of accessing strategic resources (Cuervo-Cazurra, 2011). Thus, those that have developed an uncertainty management capability are better positioned at dealing with the challenges of expanding outside the home region.

We test these ideas on a sample of 536 publicly-traded Latin American firms based in four countries of Latin America: Argentina, Brazil, Chile, and Peru. Analyzing firms in Latin America provides a novel research setting as these firms have received very limited attention in the literature (Elahee & Vaidya, 2001; Ciravegna, Lopez & Kundu, 2016; Perez-Batres, Pisani, & Doh, 2010); 67% of the multinationals from Latin America are based in the four countries we examine (Cuervo-Cazurra, 2016). These countries provide us with an interesting sample because of the diversity in political risk and corruption and, at the same time, a degree of commonality (Aguilera, Ciravegna, Cuervo-Cazurra, & Gonzalez-Perez, 2017; Bulmer-Thomas, 2003). We find that internationalization has a positive impact on firm performance, especially for firms that internationalized regionally within Latin America. We also find that the internationalization-performance relationship is stronger for firms that come from countries with higher levels of political risk. Finally, we find that the impact of home country political risk on the internationalization-performance relationship is stronger when firms internationalize beyond their home region of Latin America.

These ideas and findings contribute to a better understanding of the internationalization-performance relationship in two ways. First, rather than discussing the specifics of the shape of the relationship, we instead go deeper into the factors that modify this relationship, as called for in previous studies (Hennart, 2012). We explain how organizational learning from home context modifies this relationship by leading firms to develop an uncertainty management capability that is helpful in internationalizing. These arguments provide additional empirical support for the idea that emerging market firms build advantages from their exposure to disadvantageous home country conditions and leverage what they learned to support their internationalization (Cuervo-Cazurra, 2012; Cuervo-Cazurra and Genc, 2008). Specifically, adding a more fine-grained view of how political risk and corruption influence the internationalization-performance relationship. We find that only political risk moderates positively the relationship, suggesting that it is by managing high political risk that firms acquire the uncertainty management capability that supports their performance when internationalizing.

The ideas and findings also contribute to the literature on the internationalization of emerging market firms (Cuervo-Cazurra and Ramamurti, 2014; Luo and Tung, 2007). We show that extra-regional expansion has positive effects on performance, possibly because it allows them to diversify from regional-level uncertainty, such as regional waves of political risk spikes, while allowing for the deployment of their uncertainty management capability in contexts where incumbents have different capabilities.

These ideas also have important implications for managerial practice. Understanding whether and how internationalization affects performance for firms based in different home country contexts is key for managers of firms that have to design and implement internationalization strategies (McGahan & Victer, 2010). This study provides insights to managers of emerging market firms by proposing that they actively learn from the uncertainty coming from political risk and corruption at home and use this capability to manage uncertainty to manage the differences across countries when they internationalize their firms. They can also use this uncertainty management capability not only to manage in other countries, but also in countries that are farther away from the home country, and realize that the challenges faced at home can become a source of advantage abroad that help their firms perform better.

THEORY AND HYPOTHESIS DEVELOPMENT

Uncertainty Management Capability

We link organizational learning theory (Fiol and Lyles, 1985; Argote & Miron-Spektor, 2011) and the institutional perspective (Khanna & Palepu, 2010; Meyer, 2001; Peng, Wang & Jiang, 2008) to analyze the relationship between internationalization and performance; we propose that firms develop an uncertainty management capability at home from dealing with corruption and political risk that alters the internationalization-performance relationship. We study uncertainty focusing on political risk (Henisz, 2003) and corruption (Tanzi, 1998), analyzing how they moderate the relationship between internationalization and performance. We choose these two dimensions because they represent important and yet different manifestations of home country uncertainty. Although the underlying logic is similar, the two dimensions follow different mechanisms: while political risk deals with the uncertainty about the

political environment, corruption generates uncertainty with regards to whether and how rules are interpreted and enforced (Rose-Ackerman, 1975; Cuervo-Cazurra, 2006).

Organizational learning theory points out that knowledge can be discrete and contextual (Argote, 1982; Levitt & March, 1988). Discrete knowledge is specific and applicable to very similar situations, such as the case of a firm based in a high political risk market operating in a foreign high political risk market. Contextual knowledge is broader, applicable in a less specific but more generalizable way to situations that share some common feature, for example, in our case, abrupt changes in regulation, which, though typical of corrupt and politically risky markets, can affect all economies. The organizational knowledge that firms accumulate to become more resilient because of domestic market uncertainty and that forms the base of the uncertainty management capability helps them in similar, high-uncertainty markets, where they can deploy it "discretely" (Fiol and Lyles, 1985).

Firms develop capabilities as their managers and employees learn by accumulating experiential knowledge. Firms that have to operate in environments that change often, where crises are the norm, develop routines and processes to manage uncertainty, as part of their building on an institutional capability (Oliver, 1997). Operating in high uncertainty domestic markets firms develop strategic solutions to become more resilient, such as having redundant capacity and processes to acquire and diffuse information through the organization (Bigley & Roberts, 2001; Ciravegna & Brenes, 2016; Pearson & Clair, 1998). These routines and processes become capabilities that support their performance (Martin, 2014), because they make them more resilient to unpredictable events, ranging from natural disasters to abrupt market fluctuations (Argote, 1982).

It is these routines, processes and strategic solutions that form the basis of what we call the uncertainty management capability, i.e., the capability of a firm to better deal with uncertainty in its interactions with the external environment. Thus, firms based in high-uncertainty markets use their experiential knowledge to develop the uncertainty management capability that helps them anticipate and manage sudden changes in the context where they operate, a capability that becomes very useful for managing the complexity and unpredictability of international operations. This contextual organizational knowledge that firms develop helps them also when operating in countries that do not suffer from corruption or political risk because it makes them more prepared to face abrupt and unpredictable market changes, for example by having mechanisms that help to hedge the risks related to currency crises and changes in trade policy. In sum, drawing from the literature on resilience and organizational learning (Levitt & March, 1988; Bigley & Roberts, 2001; Pearson & Clair, 1998) we argue that being exposed to high uncertainty at home leads firms to learn and develop an uncertainty management capability that makes them more resilient and better at competing in different foreign markets.

We now explain how this capability supports performance for international firms. Figure 1 illustrates the relationships we analyze. We first discuss the relationship between internationalization and performance, which forms the foundation of our baseline hypotheses. This relationship has been widely analyzed before, and hence we are only considering this as a baseline argument, modifying the traditional arguments slightly because we are analyzing companies from emerging markets. We then add novelty to the analyses of the internationalization-performance relationship by explaining how firms from countries with higher levels of uncertainty, captured with political risk and corruption, develop an uncertainty management capability that strengthens this relationship. We finally discuss how these relationships differ depending on the region in which firms expand.

*** Insert Figure 1 here ***

The Internationalization-Performance Relationship

There are many benefits to the international expansion because, in principle, any of the motivations that drive a company to expand abroad (for a recent discussion, see articles in the special issue edited by Cuervo-Cazurra and Narula, 2016) can help it achieve higher profitability. A company can use existing resources and capabilities it has developed in its home country more intensively by expanding into

countries, selling products and services to new customers benefiting from its ownership advantages arising from the resources it has developed in the home country (Dunning, 1977; Hymer, 1976). The firm can also benefit from accessing skills it lacks at home or better factors of production available in other countries, taking advantage of the location advantage or comparative advantage of the host country (Dunning, 1998). A company can also profit from global learning, in which it is exposed to innovations in other countries and integrates knowledge from various countries to achieve higher levels of innovation (Doz & Williamson, 2002; Bonaglia, Goldstein, & Mathews, 2007), or from arbitraging differences across countries, transferring company knowledge and advantages available in particular markets (Kogut, 1985).

At the same time, there are also many challenges to the internationalization of the firm that reduce the profitability of a company. A company may face discrimination in host countries, which limits its ability to operate effectively there and may jeopardize its investments (Buckley & Casson, 1976). Firms incur additional costs for operating in host countries that incumbents do not (Hymer, 1976). A company must develop new knowledge on how to become a multinational, compete in a foreign country, and operate in a different institutional setting (Eriksson, Johanson, Majkgård & Sharma, 1997; Brenes, Chattopadhyay, Ciravegna, & Montoya, 2014b). A multinational firm also faces the challenges of coordinating operations across multiple countries (Teece, 1977; Zaheer, 1995).

Ultimately, the impact of internationalization on performance would depend on the balance between the benefits achieved from such internationalization and the costs. Thus, as a result of these interactions between the advantages and disadvantages of internationalization, a large debate on the specific relationship between internationalization and performance has appeared, which has been discussed in international business literature at length (Aulakh et al., 2000; Contractor et al., 2003; Gomes & Ramaswamy, 1999; Marano et al., 2016). The debate has mostly centered on the particular shape of the relationship between these two constructs, with a secondary debate on the identification of the determinants of such relationships. Scholars have discussed at length whether there is a positive or negative relationship between internationalization and performance, and whether this relationship is a linear or curvilinear relationship, and what specific shape a curvilinear relationship may have (Contractor, 2012; Glaum & Oesterle, 2007; Hennart, 2011; Wiersema & Bowen, 2011; Gaur & Kumar, 2009). All these deliberations have resulted in not only the debate on the particular relationship, but more importantly on whether a relationship between internationalization and performance exists at all (Hennart, 2012).

Thus far, studies examining firms based in advanced economies have dominated the debate. However, the conditions of the home country may influence how firms develop resources (Martin, 2014; Oliver, 1997; Peng, 2002) and thus the internationalization-performance relationship. More specifically, the relationship may differ for emerging market multinational enterprises (EMNEs) because that causal conditions related to being based in emerging economies may influence the effects of internationalization on performance. This is the line of argumentation that we follow.

We propose that internationalization has a positive impact on performance for emerging market firms. Internationalizing allows emerging market firms to benefit from economies of scale and to reconfigure their assets in ways that best exploit their firm-level competitive and country-of-origin comparative advantages (Dunning, 1988). These firms tend to be the best companies from their country, as they need to have capabilities that they can transfer and apply in other countries to offset the liability of foreignness (Hymer, 1976). They can also use the comparative advantage of the home country such as lower production or labor costs to compete abroad and improve profitability. Additionally, by expanding, emerging market firms, can compensate to some extent for the disadvantages that they face in their home countries. They can some of these solve by entering countries with better technology and bringing this technology back go the home country to upgrade the technological capabilities of home operations and compensate for the weak innovation system of the home country (Madhok & Keyhani, 2012). They can expand abroad to access better functioning institutions that helps the firm avoid the challenging conditions of the home country (Witt and Lewin, 2007). They can also enter emerging economies that, in spite of also suffering from weak institutions, might have very different factor markets. For example, a manufacturer based in Latin America might find in China the opportunity to collaborate with specialized input suppliers, as the Mexican Grupo Salinas did by collaborating with the Chinese automobile manufacturer FAW

(Cuervo-Cazurra and Montoya, 2015). Thus, emerging market firms that internationalize should perform better than those that remain domestic. Since the idea that internationalization has a positive impact on performance is well established in the literature, we do not present a formal hypothesis.

Home Country Uncertainty and the Internationalization-Performance Relationship

Emerging markets differ from developed economies in that they suffer from institutional weaknesses that increase the uncertainty of operation, and thus the cost of doing business (Aulakh & Kotabe, 2008; Meyer, 2001; Khanna & Palepu, 2013; Xu & Meyer, 2012). Operating in such contexts entails overcoming challenges that are different from those faced by firms based in developed economies (Khanna & Palepu, 2013). These challenges make it ever more important to shed light on the relationship between context, strategy, and performance (Henisz & Zelner, 2004; Xu & Meyer, 2012). As we indicated before, we propose that emerging market firms develop the uncertainty management capability from dealing with political risk and corruption at home and this capability strengthens their ability to manage the uncertainty of operating in other countries and thus strengthens the internationalization-performance relationship.

Political Risk and the Relationship between Internationalization and Performance. "Political risk is the risk that a sovereign host government will unexpectedly change the 'rules of the game' under which businesses operate (Butler and Joaquin, 1998: 599)." Political risk captures the uncertainty that political changes and social unrest impose on the institutional environment, allowing us to examine how it changes through time and across countries (Henisz, Mansfield & Von Glinow, 2010; Kobrin, 1979; Simon, 1984). Political risk goes beyond macroeconomic indicators and takes an encompassing perspective of events that may have negative effects on businesses (Nigh, 1985). We propose that the experience gained in dealing with political risk at home strengthens the relationship between internationalization and performance, because managers' experience of how to deal with uncertainty and change in the political conditions at home becomes useful when dealing with the variation in institutions and uncertainty about those institutions that exist across countries.

We propose that there is a negative relationship between the level of political risk in the home country and firm performance. Political risk increases the cost of doing business and thus, negatively affects enterprises. Managers have to deal with the additional uncertainty regarding the rules and regulations that are applied in the country, inducing them to spend valuable time and money trying to understand which regulations are in effect and how the company can comply with such regulations. However, political risk also means that there is a lack of clarity regarding the application of regulations and thus actions carried out to comply with particular regulations may not bear fruit as competitors do not undertake similar investments and are not punished for not following the regulations, enabling them to undercut the firm. Political risk at home creates uncertainty in operations and limits the investments that firms undertake for fear of expropriation (Henisz, 2003). Political risk means that politicians may not only change regulations and their applicability, but also that they will implement rules and regulations that benefit them and the state at the expense of private investors. For example, politicians can implement new price controls or levy additional taxes, or in extreme cases nationalize investments, with managers having little recourse to challenge such actions. These events generate uncertainty, which reduces managers' incentives to invest in large fixed assets, as the latter may be more prone to expropriation by politicians. These smaller investments reduce firms' operational efficiency and international competitiveness, thus having a negative impact on the performance of firms. These arguments support the following hypothesis on the direct effect of political risk on profitability:

Hypothesis 1a. Home country political risk has a negative impact on performance

Despite this negative impact, we propose that political risk has a silver lining in the form of a reinforcement of the internationalization-performance relationships via the development of the uncertainty management capability. In general, the ability to survive and succeed in the challenging business environments of emerging markets may turn into an advantage for the firms that can deploy the knowledge accumulated when internationalizing (Cuervo-Cazurra & Genc, 2008; Holburn & Zelner, 2010). By operating in high political risk environments firms acquire organizational knowledge to deal with

unpredictable policy changes (Pearson & Clair, 1998). For example, they develop mechanisms, processes, and routines that help them stay receptive to their environment to try anticipating changes, and manage their operations in ways that can more easily adapt to high uncertainty situations. Managers learn skills for dealing with the risks and uncertainties that are useful not only for choosing other politically risky countries (Holburn & Zelner, 2010), but also for managing the inherent risks and uncertainties of international markets, in which differences in economic, political, cultural and geographic characteristics of countries tend to detract from performance. The 2016 Brexit referendum and the 2016 Trump election illustrate that low political risk economies of North America and Europe are not immune from abrupt changes in policy environments.

Additionally, although firms based in high political risk contexts learn how to manage uncertainty, they might not always manage to anticipate abrupt political risk driven market changes. Internationalization allows firms to mitigate the risks of being based in uncertain environments by reducing their dependence on the domestic market for their revenues and profits (Witt & Lewin, 2007; Yamakawa et al., 2008). We summarize these ideas on the moderating influence of political risk on the internationalization-performance relationship in the following hypothesis:

Hypothesis 1b. Home country political risk strengthens the positive relationship between internationalization and performance.

Corruption and the Relationship between Internationalization and Performance. Corruption, the abuse of public office for private gain, occurs when there are opportunities to obtain private gains because government officials have power over decisions, and there are no efficient mechanisms to monitor such decisions transparently (Rose-Ackerman, 1975). "Corruption is widespread in countries where the administrative apparatus enjoys excessive and discretionary power, and where laws and processes are barely transparent" (Habib & Zurawicki, 2002: p. 293). Corruption happens when institutions designed to prevent and punish graft, such as the police and the judiciary, fail in their functions (Tanzi 1998). Low salaries, poor training and high levels of red tape contribute to the prevalence of corruption in emerging economies (Beets, 2005). Corruption is common in emerging economies, but it varies across countries and time. Chile, for example, has consistently reduced corruption and by 2014, it ranked as less corrupt than many developed economies, such as Italy or Spain (CPI, 2014).

Corruption reduces firm performance because it increases the cost of doing business. Corruption requires managers to pay bribes to politicians as well as devoting time and effort to interact with the politicians and devise schemes to pay and conceal the illegal payments, and to undertake actions that may have limited business benefits but may please the corrupt politicians (Doh, Rodriguez, Uhlenbruck, Collins & Eden, 2003; Mauro, 1995; Rodriguez, Uhlenbruck & Eden, 2005; Spencer and Gomez, 2011). These actions result in not only a direct increase in the cost of operation to the firms as a result of having to pay bribes but also in an indirect increase in uncertainty of the operation as the managers cannot be sure that the payment of a bribe will result in the government official keeping his side of the bargain, or in the same or other government officials demanding additional bribes in the future. Corruption creates incentives for dishonest officials to increase red tape and reduce bureaucratic efficiency, thus further increasing the costs of operations and uncertainty (Rose-Ackerman 1975; Tanzi, 1998) and creating a burden on the firm, decreasing its profitability as it is not able to transfer these increased costs to its customers.

These ideas explain the direct impact of corruption on profitability and support this hypothesis:

Hypothesis 2a. Home country corruption has a negative effect on performance.

The learning that the firm gains from dealing with corruption and the uneven and changing application of rules and regulations can be useful when expanding abroad as it helps the firm build up its capability for dealing with uncertainty. Learning how to deal with uncertainty about rules and rule enforcement equips firms to be more adaptable and resilient to sudden changes in the rules of the game, whether caused by corruption or other events. Managers become more open and mentally flexible at the rules and regulations that support relationships. They are also more used to understanding that the application of such rules is variable and thus become used to dealing with the uncertainty on the institutional framework. This ability to deal with uncertainty becomes useful when managing in other countries that not only have very different rules and regulations but also that have variable application and enforcement of

rules and regulations. As a result, the experience of dealing with corruption at home can have a positive moderating effect on the relationship between internationalization and performance because managers learn to deal with the unpredictability in the interactions with politicians and government officials, which can be useful when interacting with the diversity of foreign countries they enter. Thus, by internationalizing, firms from high corruption environments can find opportunities to deploy the organizational knowledge and routines they developed at home in managing uncertainty and better manage the uncertainty coming from a diversity of foreign operations. We summarize these ideas in the following hypothesis:

Hypothesis 2b. Home country corruption strengthens the positive relationships between internationalization and performance.

The Regionality of Internationalization, Home Country Uncertainty, and the Internationalization-Performance Relationship

We conclude the theoretical development by analyzing how the expansion into nearby or far away regions modifies the previous relationships. The regional, or semi-global, nature of multinational enterprises has been examined focusing almost exclusively on firms from advanced economies. The findings from this line of research are that multinational enterprises tend to internationalize regionally (Rugman & Verbeke, 2004; 2008). Regionality can be explained, among other things, in terms of the commonalities that countries within a region share (Flores & Aguilera, 2007; Verbeke & Kano, 2016; Verbeke & Asmussen, 2016; Ciravegna, Lopez, & Kundu, 2014).

The theoretical logic behind the regional expansion is that firms can use the knowledge gained in the home country and apply this in nearby countries that tend to be similar to the home country. This reflects the original arguments of the incremental internationalization or Uppsala model that managers will take their firms first to countries that have a lower psychic distance, or which differ the least from the home country (Johanson & Vahlne, 1977). Intra-regional differences between countries are lower, and tend to be shaped by history and geographic proximity (Verbeke & Kano, 2016). Drawing from the regionality stream of studies, it should be easier for firms to deploy their firm-specific advantages in markets that are less dissimilar from home, for example with similar levels of institutional quality or that are going through similar processes of pro-market reforms (del Sol and Kogan, 2007). We expect that emerging market firms may perform better by moving into countries in their nearby region, in which they face lower psychic distance and in which they can deploy their firm-specific advantages at the regional level (Rugman & Verbeke, 2004; Qian, Li, Li & Qian, 2008; Ciravegna, Lopez, & Kundu, 2016). Given the debate on the relationships between regional expansion and performance, and our focus on the influence of the uncertainty management capability, we do not present baseline hypotheses. Instead, we go beyond the usual direct impact to argue that the organizational knowledge to deal with uncertainty developed via exposure to political risk and corruption at home is particularly useful when expanding beyond their region.

Exposure at home to higher political risk and corruption provides managers with experiential knowledge about changing decisions by politicians regarding firms and their investments as well as towards changes in the political regimes, helping the firm build the uncertainty management capability. This experiential knowledge becomes part of the contextual organizational knowledge of the firm, and, once codified into routines (Argote & Miron-Spektor, 2011; Levitt & March, 1988), it can help managers when having to deal with the multifaceted dimensions of context uncertainty. It follows that firms that go through a more severe learning process at home because of high uncertainty, should be better suited to manage the challenges of extra-regional internationalization.

Firms that only internationalize within the region are more likely to face incumbents that went through a similar learning process, which might reduce the effects of the uncertainty management capability on the relationship between internationalization and performance. For example, after the Second World War, most Latin American countries went through a period of protectionism, state dirigisme, macroeconomic instability, and heightened ideological frictions, in several cases accompanied by repression, the breakdown of democracy, and internal conflict (Thorp, 1998; Aguilera et al., 2017). In other regions, local incumbents are likely to have gone through different learning processes, either because of lower home context uncertainty, or similar levels of uncertainty but with different specific manifestations. Thus, emerging market firms might be able to deploy their uncertainty capability management to support

internationalization outside of the home region better, where local incumbents compete using organizational routines developed through different experiential knowledge. Additionally, there might be feedback effects, whereby firms that operate outside of the home region are exposed simultaneously to home context uncertainty and to the uncertainty related to managing inter-regional differences, which allows for the refinement of the uncertainty management capability with the experiential knowledge acquired outside of the region, for example ideas about how to operationalize or improve the practices to deal with uncertainty perfected at home. For these reasons, we propose that home context uncertainty, as captured by corruption and political risk, strengthens the internationalization-performance relationship, and particularly so for firms that internationalize outside of the home region.

There is a further reason why we propose that internationalizing beyond the home region contributes positively to the performance of firms based in emerging markets. The idea that firms internationalize targeting nearby countries were developed by using the experience of firms from advanced economies, and may need modification in the case of emerging market firms (Cuervo-Cazurra, 2011). Advanced economy firms do not suffer from the country and regional level location disadvantages that characterize emerging market regions such as Latin America. In other words, advanced economy firms are based in low uncertainty regions, which also benefit from sophisticated factor markets. Firms based in emerging economies, on the other hand, suffer from regional location disadvantages – they have inferior access to sophisticated factor markets, and, as we discussed in this study, they are based in high uncertainty countries, and often, also high-uncertainty regions. Operating within the region may have certain advantages, such as exploiting the lower adaptation costs due to cultural similarities, but it limits the extent to which firms can gain access to the sort of resources not available within the region, such as access to specialized skills or input suppliers based in North America or Asia for Latin American companies.

Finally, emerging market firms might also internationalize to diversify and attenuate the risks related to being based in uncertain contexts (Yamakawa et al., 2008). The history of Latin America illustrates that context uncertainty often has both country and regional features (Pizetta Torres, 2016; Thorp, 1998). Firms that internationalize within the region, in spite of their learned ability to manage uncertainty, continue to face the high transaction costs related to operating in high uncertainty markets, and remain vulnerable to unpredictable events that might affect the whole region. Firms that internationalize beyond the home region, on the other hand, can be more protected from regional waves of high uncertainty because they have operations in multiple regions. For example, between 2013 and 2017 a Brazilian firm that only invested in Latin America might have been very exposed to the wave of events related to corruption scandals in the region, as well as by the regional economic slowdown due to low commodity prices (The Economist, 2014). The non-regional operations of a Brazilian firm with investments in North America or Asia, on the other hand, might compensate for lower performance at home and in the home region. We summarize these arguments with the following hypotheses:

Hypothesis 3a. The strengthening impact of home country political risk on the (positive) relationship between internationalization and performance is stronger when firms expand outside their home region.

Hypothesis 3b. The strengthening impact of home country corruption on the (positive) relationship between internationalization and performance is stronger when firms expand outside their home region.

RESEARCH DESIGN

Sample and Data Sources

We test our hypothesis using a sample of firms from four Latin American countries. We focus on Latin American firms because historical similarities among countries facilitate comparisons, while cross-country differences enable the analyses (see, for example, Brenes, Camacho, & Ciravegna, 2016). Latin American countries share similar histories. They went through a period of protectionism during the 1950s-1980s, which was followed by a period of structural adjustment and economic reforms (Santiso, 2007). Many Latin American firms have actively entered new markets, though these firms remain under-represented in the international business literature (Cuervo-Cazurra, 2008; Nicholls-Nixon, Castilla, Garcia, and Pesquera, 2011; Brenes et al., 2014b).

Latin America is characterized by a history of political instability and institutional weakness. Though the region's countries share linguistic and cultural similarities (Vassolo, Castro and Gomez-Mejia, 2011), there is also high variation in political risk and corruption across countries and over time. Such characteristics make firms internationalizing from these countries ideal subjects for studying the effects that home country political risk and corruption may have upon the internationalization-performance relationship. Although political risk and corruption may have negative effects on business performance, firms that expand beyond the region from a high-risk home base may be better equipped to deal with these difficulties in their target markets (Cuervo-Cazurra, 2007; Dominguez and Brenes, 1997; Witt and Lewin, 2007). Despite being ideally suited for examining these effects, Latin American EMNEs, also known as Multilatinas, have seldom been studied (Cuervo-Cazurra, 2008).

In Latin America, business environmental uncertainty has often been intertwined with political instability (Ciravegna & Brenes, 2016). This mix has caused abrupt policy and regulatory changes, including nationalizations of private businesses and unforeseen currency devaluations (Santiso, 2007). Argentina, for example, between 2001 and 2002, went through a debt default, an abrupt currency devaluation and a banking crisis, and it lost about one third of its GDP under three presidents over that period (Castells, Caraça and Cardoso, 2012). The Argentinean government subsequently imposed a wide array of regulatory measures, ranging from price controls to export taxes to exchange rate controls (Wylde, 2014). The experience of Argentina is not unique—many Latin American countries are affected by the commonplace civilian unrest, protests, and strikes, all of which destabilize the business environment, generate uncertainty regarding the regulatory framework and property rights, and affect the cost of doing business (Machado, Scartascini and Tommasi, 2009). Latin America suffers from corruption caused by the fragility of its judiciary and rule-enforcing institutions. Complex bureaucratic procedures and red tape magnify such corruption (De Soto, 1989). Corruption also varies among Latin American countries and changes over time (Transparency International, 2014).

We initially selected all companies listed in the Stock Exchanges of Buenos Aires (Argentina), Sao Paolo (Brazil), Santiago (Chile), and Lima (Peru). We obtained financial data from Economatica, a database that contains annual financial information, including sales, net profits, and assets, from 1995 to 2012, for all the firms that traded securities in these four major Latin American stock exchanges. In addition to assembling the financial information database, we perform a thorough exploration of each company using companies' websites, annual reports, archival data, and filings with the local regulators. We identified a company's year of foundation, whether it had international operations, whether international operations were only in Latin America or also in other regions, and the year that it initiated international operations, among other variables. We ended having 5733 firm-year observations, for 536 firms over the seventeen-year period. Not all firms have observations for the entire sample: 12 firms have one or two years of operations. Country macroeconomic data are from the World Bank Database Indicators (World Bank, 2012) and were integrated into the database for each year of the study. Political risk was measured using the Political Risk Services International Country Risk Index (PRS). To measure the country's level of corruption, we use the Transparency International's Corruption Perception Index (CPI).

Methods of Analysis and Variables

We test our hypothesis using the following two models:

(1) $\text{Firm Profitability}_{i,t} = \alpha_0 + \alpha_1 \text{International}_{i,t-1} + \alpha_2 \text{Political Risk}_{i,t-1} + \alpha_3 \text{International}_{i,t-1} * \text{Political Risk}_{i,t-1} + \alpha_4 \text{Corruption}_{i,t-1} + \alpha_5 \text{International}_{i,t-1} * \text{Corruption}_{i,t-1} + \alpha_6 \text{Age}_{i,t} + \alpha_7 \text{Size}_{i,t} + \alpha_8 \text{Business Cyle}_{i,t-1} + \alpha_9 \text{Openness}_{i,t-1} + \alpha_{10} \text{GDP per capita}_{i,t-1} + \alpha_{11} \text{International Experience}_{i,t} + \alpha_{12} \text{Natural Resource Based}_{i,t} + \alpha_{13} \text{Manufacturing}_{i,t} + \alpha_{14} \text{Service}_{i,t} + \text{Year controls} + e_{i,t-1}$

(2) $\text{Firm Profitability}_{i,t} = \beta_0 + \beta_1 \text{Regional Internationalization}_{i,t-1} + \beta_2 \text{Non-Regional Internationalization}_{i,t-1} + \beta_3 \text{Political Risk}_{i,t-1} + \beta_4 \text{Regional Int.}_{i,t-1} * \text{Political Risk}_{i,t-1} + \beta_5 \text{Non-Regional Int.}_{i,t-1} * \text{Political Risk}_{i,t-1} + \beta_6 \text{Corruption}_{i,t-1} + \beta_7 \text{Regional Int.}_{i,t-1} * \text{Corruption}_{i,t-1} + \beta_8 \text{Non-Regional Int,}_{i,t-1} * \text{Corruption}_{i,t-1} + \beta_9 \text{Age}_{i,t} + \beta_{10} \text{Size}_{i,t} + \beta_{11} \text{Business Cyle}_{i,t-1} + \beta_{12} \text{Openness}_{i,t-1} + \beta_{13} \text{GDP per capita}_{i,t-1} + \beta_{14} \text{International Experience}_{i,t} + \beta_{15} \text{Natural Resource Based}_{i,t} + \beta_{16} \text{Manufacturing}_{i,t} + \beta_{17} \text{Service}_{i,t} + \text{Year controls} + e_{i,t-1}$

Table 1 summarizes the variables and measures used in the analysis. The dependent variable is a measure of performance (Firms profitability). Following other studies in international business, performance is measured as return on assets (ROA) or earnings before interest, taxes, and depreciation (EBITDA) divided by total assets (Barnett, 2007; McGahan & Victer, 2010). We use this measure instead of other variables of performance, Tobin's Q or market value for example, because these measures are highly impacted by other relevant information such as revenues and earnings surprises and future economic prospects, not only internationalization (Ball & Kothari, 1991).

*** Insert Table 1 about here ***

The independent variables of interest are internationalization, home country political risk, and home country corruption. In Model (1), have two categories of firms: firms with international operations and firms with no international operations. We include one dummy variable to confirm the baseline idea that internationalization has an impact on profitability. The variable International $_{i,t-1}$ takes the value of one if firm i has international operations in year t-1, zero otherwise. The base category is firms with only local operations. We expect α_1 be positive.

In Model (2), we have three categories of firms: firms with international operations in the same region (Latin America), firms with international operations outside the region, and firms with only local operations. We include two dummy variables to check the second baseline idea that the internationalization of Latin American firms in their own Region has a positive impact on firm performance. We include a dummy variable, Regional Internationalization $_{i,t-1}$, which takes a value of 1 if the firm i has international operations only in Latin America (the same region of the home country) in year t-1, 0 otherwise, and Non-Regional Internationalization$_{i,t-1}$, which takes the value of 1 if firm i has international operations outside of the home region Latin America in the year t-1. The base category is firms with only local operations. We expect β_1 to be positive.

We lag the international independent variables by one year, because the internationalization process is likely to impact firm performance the following year. If one firm starts international operations in one year, effects on its profitability might take some time to be observed, and hence we measure internationalization's impact on the following year's profitability.

We measure home country political risk using the PRS ranking from the Political Risk Services International Country Risk Guide (PRS). We measure corruption using the Transparency International's Corruption Perception Index (CPI) (Transparency International, 2014). The CPI is a composite index that measures the perceived levels of public-sector corruption worldwide using a combination of surveys collected by a variety of reputable institutions. We add to the regression models our variables of political risk and corruption and the interaction of these variables and our internationalization dummy indicators. We test whether the level of political risk in the country of origin (Political Risk) has an impact on firm performance (Hypothesis 1a) and whether the country political risk moderates the internationalization-performance relationship (Hypothesis1b). We expect α_2 and β_3 to be negative and α_3 to be positive. We test whether the level of corruption in the country of origin (Corruption) has an impact on firm performance (Hypothesis 2a) and whether the country corruption moderates the internationalization-performance relationship (Hypothesis 2b). We expect α_4 to be negative and α_5 to be positive. Using the same model, we also test whether the proximity and home country uncertainty have an impact on the internationalization-performance association (Hypotheses 3a and 3b). We expect β_5 and β_8 to be positive and significant.

Additionally, we control for other firm, industry, and country influences on profitability. First, we control for size as a proxy for firm resources, as the internationalization literature points that firms with more resources might be able to achieve higher performance and better support their internationalization (Rugman, Verbeke, & Nguyen, 2011). Second, we control for firm age because older firms may have a greater degree of experience, and organizational experience can help firms improve their performance through learning by doing (Vermeulen & Barkema, 2001; Argote & Miron-Spektor, 2011). We measure firm age as the difference between the year of analysis and the year of firm inception. We measure international experience as the number of years between the year analyzed and the year in which the firm initiated international operations, again on the premise that firms acquire organizational knowledge in a

cumulative fashion, for example, knowledge related to how to manage across multiple borders (Basuil & Datta, 2015). Third, we control for specific country influences on firms' profitability: Openness, GDP per capita, and Business Cycle. We control for the country's GDP per capita and economic openness to account for changes in average wealth per capita and exposure of firms to international markets. As a measure of openness, we use countries' total exports and imports divided by GDP. We also control for the country's business cycle using GDP growth because the expansion of the economy may impact firm effectiveness. We lag by one year the variables measuring the level of political risk, corruption, GDP per capita, openness and business cycle, because these variables might have an impact on firms' profitability in the following year. The profits firms report in a given year are related to activities that may have been negotiated previously and to political and economic conditions from previous periods.

We include industry dummy variables based on the categorization used in Economatica, the source for our data, in order to control for the effect of specific industry factors that impact firms' profitability. Reviewing the firms in each industry, we cluster firms in four groups: (1) Natural Resource Based industries (NRB), which includes agriculture, fishing, mining, and oil and gas; (2) Manufacturing, which includes iron, steel, textile, and chemical processing; (3) Services, which includes transportation, telecommunications, retail, and other services companies; and (4) Others, which includes the rest of the firms in the sample. We include three industry dummy variables corresponding to the first three industry groups. Others is the base and it is not included in the regression.

To control for political factors that might have an impact on firms' profitability, we include dummy variables that denote the years in which each country had general elections (Brazil in 1998, 2002, 2006 and 2010; Chile in 1999, 2005, and 2009; Peru in 1995, 2000, 2006, and 2011, Argentina in 1995, 1999, 2003, 2007, and 2011). In emerging economies elections tend to have an impact on investment and profitability given the sometimes large swings in policymaking that happen when a new political party comes to power.

We estimate our regression models using generalized least squares (GLS) models for panel data with correction for heteroskedasticity and panel-specific autocorrelation. This model addresses several issues that can be inherent in the error structure of panel data. We do not use fixed-effects models because this would drop some important variables that do not change over time from the analysis. The Hausman test suggests that the random-effects model is adequate. The difference in the coefficients obtained from the fixed-effects and random-effects models is not statistically significant. We grand-mean centered and standardized the continuous independent variables to reduce the multicollinearity problems. We use variance inflation factors (VIF) to test for multicollinearity and obtain values below 7 in both models, suggesting that multicollinearity is not an issue in our analysis.

RESULTS

Descriptive Statistics

Table 2 presents descriptive statistics by countries. The observations are distributed by country as follows: Argentina (12%), Brazil (48%), Chile (25%) and Peru (15%). The mean return on assets is 6.70%, with no major differences in average profitability by country. During the sample period, 47% of the observations have international operations, of these observations, 25% have international operations in Latin American countries and 22% have operations beyond Latin America. The average age of the firms in our sample is 44 years, without major differences by countries. The average international experience of firms with international operations is 14.6 years. Table 3 presents the number of industry observations by country and industry. Table 4 presents the correlation matrix. The variables measuring internationalization (Internationalization) and international experience (International Experience) are positively correlated with firm profitability, but political risk is negatively related to firm profitability.

*** Insert Tables 2, 3 and 4 about here ***

Test of Hypotheses

Table 5 presents the estimated regression coefficients used to test the hypotheses. The first column shows the results when only one dummy variable denoting firms with international operations (International) is included (Model 1). The second column presents the results when two dummy variables representing international operations: Regional and Non-Regional Internationalization, are included (Model 2).

We find support for the traditional arguments that internationalization and international expansion in the region support performance. The coefficient for the dummy variable International is positive and statistically significant (Model 1). This positive effect of Internationalization (i.e., having international operations) is stronger for firms that have international operations in their home region (Model 2) compared to firms that have operations also outside of their home region.

The political risk of the country of origin has a negative impact on firms' profitability. Hypothesis 1a is supported because the coefficient for the variable measuring country political risk is negative and statistically significant in both models. The coefficient of the interaction between International and Political Risk is positive and statistically significant (Model 1), which supports H1b. Corruption has a positive impact on performance. This goes against Hypothesis 2a. Corruption does not have any effect on the internationalization-performance relationship. The coefficient of the interaction between the corruption and our internationalization variable is not significant, not supporting Hypothesis 2b.

When we test the interaction between the variables Regional and Non-Regional Internationalization with Political Risk (Model 2), the coefficient of the interaction of Non-Regional and Political Risk is positive and statistically significant. Non-Regional Internationalization strengthens the impact of Political Risk on the home country on the internationalization-performance relationships, which supports H3a. When we test the interaction between the variables Regional and Non-Regional with Corruption (Model 2), we find that Non-Regional Internationalization does not strengthen the impact of Corruption on the internationalization-performance relationship. We find no support for H3b.

*** Insert Table 5 about here ***

The signs of our controls are all as expected. Firm age and the years of internationalization have a positive impact on profitability. Home country openness, and economic growth, have a positive impact on firm performance. Industry dummy variables are barely statistically significant. Both models are statistically significant. The wild chi2 statistic of both models are larger than 120 (p-value<0.001).

Robustness Tests

We perform several robustness tests. First, we test the model for sensitivity to the measures used to operationalize our constructs. Therefore, we run the analysis using different alternative operationalization. For instance, we tested different alternative measures for our dependent variable profitability, using EBITDA divided by revenues or EBITDA divided by equity. The results were similar. We also used alternative measures of country political risk, such as the CountryWatch political index. We obtained similar results. We also estimate the coefficients of the models using the Control of Corruption variable from the Worldwide Governance Indicator Project (WGI), as an alternative measure of Corruption, with similar results. We also use another variable that measures openness. We use the KOF Globalization Index, which also includes variables such as the Foreign Direct Investment. The results remain constant.

We test whether the results are sensitive to the fact that the independent variables are lagged by one year since the effect of internationalization and the other variables may take longer to have an impact on profitability. Therefore, we run the analyses with 1- to 3-year lag times for the lagged independent variables, and without lagging the control variables. The results of the analysis are robust to these changes, and the conclusions are still supported. We also estimate the parameters including all the year dummy variables for all the countries without any major difference in our main results.

Finally, we carry out a test of predictive validity. We randomly select 75% of our sample and estimate the coefficients of the model suiting these observations. We test the validity of the model with the remaining 25% of the observations. The analysis confirms all the major conclusions of the paper. Given that the observation of Brazilian firms represents 48%, we run the analysis without Brazil. The main conclusions of the paper remain valid.

DISCUSSION AND CONCLUSIONS

In this study, we contribute to the debate on the internationalization-performance relationship by proposing that political risk and corruption modify this relationship, examining firms based in four countries of Latin America. We extend previous analyses that have tended to focus on the impact of the conditions of the firm on the internationalization-performance relationship (Chao & Kumar, 2010; Contractor et al.,

2007). Complementing these studies, we propose that internationalization has a positive effect performance, especially when expanding within the same region. We also propose that political risk and corruption, two aspects of context uncertainty, reinforce this effect, especially when expanding outside the home region.

As expected, we find political risk to have negative effects on firm performance. We then find that higher levels of political risk contribute positively to the performance of firms that have international operations. In other words, firms that learn how to manage the uncertainty linked to political risk acquire organizational knowledge applicable in a broad range of emerging and developed economies, while also diversifying from their risky home market (Cuervo-Cazurra, 2012; Yamakawa et al., 2008). However, such effect applies only to firms that internationalized beyond their home region. This suggests that unless going beyond their home region, firms do not manage to benefit from being based in a high political risk context, possibly because of regional-level domino effects. An alternative explanation is that unless they internationalize outside of their home region, firms based in high political risk contexts face competitors that are likely to have acquired similar organizational knowledge, which reduces the extent to which the uncertainty management capability contributes to performance.

We expected corruption to have negative effects on performance because it increases the cost of operation, distorts the allocation of resources, and increases uncertainty (Doh et al., 2003). However, contrary to our expectations, we find that home country corruption has a positive effect on firm performance. The literature on the effects of corruption on firm performance is divided between scholars who consider corruption as "sand in the wheels of commerce" (Kaufmann, 1997; Rodriguez et al., 2005) - a cost for business - and researchers who see it as "grease in the wheels of commerce" (Huntington, 1968; Lui, 1985), or something facilitating business. Our findings support the view of corruption as "grease", suggesting that it does benefit some businesses (Huntington, 1968; Lui, 1985). The logic for the latter argument is that in corrupt environments some firms can obtain better conditions than competitors by influencing the outcome of government contracts, regulatory changes, or the way in which the rule of law is enforced (Cuervo-Cazurra, 2016; Chen, Ding, & Kim, 2010). For example, the registered assets of the Argentinean Kirchner family, currently investigated for corruption, experienced a dramatic increase in value from 7 to 120 US $ million between 2003 and 2015, the years during which Néstor and Christina Kirchner were Presidents of Argentina, allegedly because of the positive performance of the family businesses (Ruiz, 2016). Some of the largest Brazilian firms now linked to corruption scandals also went through a period of stellar performance precisely in the period during which they bribed government officials to obtain contracts and favored conditions (The Economist, 2014).

We argue that to deal with corruption and political risk, firms develop routines based on their accumulated organizational knowledge, which prepare them to manage abrupt changes; for example, flexibility with regards to how they budget and plan, adaptability to regulatory changes, and processes to acquire and diffuse contextual knowledge in order to anticipate change (Bigley & Roberts, 2001; Brenes & Ciravegna, 2016). The uncertainty management knowledge they acquire at home becomes useful not only in a discrete way, such as when entering markets with political risk, but also, more broadly, as contextual organizational knowledge (Argote, 1982; Levitt & March, 1988), to deal with abrupt and hard to predict changes in their markets, such as regulatory and rule enforcement changes, which might occur in low corruption and low political risk countries. The main difference we find between corruption and political risk is that firms seem to benefit from being based in corrupt environments in terms of performance, whereas political risk, as expected, negatively affects their profitability. We find that internationalizing, and especially far from the home region, might not be as beneficial for firms that learned how to benefit from home corruption but is beneficial for firms based in high political risk environments. Our analysis of large firms from four countries of Latin America suggests that the "institutional escapism" idea might be more plausible for the political risk aspect of uncertainty than for corruption – political risk strengthens the internationalization-performance more than corruption, and especially so for firms that go beyond their home region. In terms of organizational learning, our results suggest that the learning process firms go through to manage political risk might be more transferable than those related to corruption. This could be because corruption is characterized by localized and relatively closed networks of relationships, which, precisely because socially embedded, are difficult to replicate abroad, and especially in more distant

countries, such as those outside of the home region, because distance influences the norms underlying socialization and relationship formation (Tanzi, 1998).

Our study contributes to research on the internationalization-performance relationship and to the literature on home country effects in emerging economies by showing that the effects of internationalization vary depending on the characteristics of the country where firms are based and the foreign markets where they expand.

Initial studies of the internationalization-performance examined whether there was a relationship between internationalization and performance and the particular shape of that relationship. Subsequent studies focused on understanding at which level of internationalization of the company there was a positive impact on performance, as well as which company characteristics were more likely to help firms achieve superior performance (Marano et al., 2016). Many of these studies were conducted by analyzing companies in advanced economies. However, these studies did not examine the effects of home country conditions on the internationalization-performance relationship. This was a common assumption of not only these studies but much of the literature on international business, given that the conditions of the home country in advanced economies were highly supportive of companies' international expansion and performance, and therefore did not seem to be a relevant factor to consider; this ignorance ended up resulting in the call for focusing on location in international business (Dunning, 1998).

In contrast to much of this literature, our study highlights how the conditions of the home country affect the internationalization-performance relationship by analyzing firms from emerging markets. This is an important contribution to our understanding of the relationship because, unlike conditions in advanced economies, conditions in emerging markets are not always supportive of neither internationalization nor superior performance of companies. In fact, emerging markets tend to be characterized in the literature by not only their lower level of economic development but also by the underdevelopment of the institutions that support economic relationships, and hence by higher costs of doing business (Khanna and Palepu, 2010). In this paper, we explain how the conditions of the home country influence the internationalization-performance relationship, focusing on context uncertainty, and specifically on corruption and political risk. Even though the goal of the theoretical development is to find a set of principles that have wide applicability, this seems to clash with the reality that the nature of the firm and its conditions of operation vary widely across countries. The origin of thinking in international strategy as well as in a strategic management was rooted in economics and focused on the typical company description of the conditions of the country of operation. Advances in political economy as well as in economics and management have highlighted the importance of comprehending companies within not only the industry context but also the institutional context in which they are making decisions, in which has been called the strategy tripod (Peng, 2012). Thus, future studies trying to understand the relationship between internationalization and performance need to go deeper and beyond focusing on company conditions and incorporate the effects of the context where the firms are based on the relationships analyzed. In the same way that we argued and found that corruption and political risk affect this relationship in Latin American countries, other studies can focus on how the advancing innovation systems affect this relationship or how companies in the least developed countries like many in Africa that affected by the underdevelopment of human resources and the constraints imposed on company development (Wang & Cuervo-Cazurra, 2016).

This study contributes to a growing literature that is focusing on home country effects on the internationalization of the company. Much of the early literature of international business paid little attention to the conditions of the home country partly because they were analyzing advanced economies, where home country conditions did not seem to impede international expansion of the companies but rather a general supporting factor that helped their international expansion. A more recent tradition in the literature has focused on trying to understand how home country features affect the way in which companies venture abroad (Cuervo-Cazurra & Genc, 2008; Garcia-Canal and Guillen, 2010; Holburn & Zellner, 2010; Luo and Wang, 2012). We build and extend this tradition by explaining how the home context uncertainty affects internationalization. Firms based in more uncertain environments benefit from internationalization for two reasons. First, firms based in higher uncertainty contexts benefit more from internationalization because they have gone through an organizational learning process that equipped them with the tools to manage

unpredictable market and regulatory changes (Cuervo-Cazurra & Genc, 2008; Holburn & Zellner, 2010). Second, internationalizing mitigates the risks associated with operating in a risky home market (Witt & Lewin, 2007). Having international operations reduces dependency on a single market or a single region, a feature that may matter not only for EMNEs, such as the Latin American firms examined, but also for firms based in advanced economies. To improve our understanding of EMNEs, researchers need to pay more attention to the mechanisms through which home markets affect the strategies and performance of these firms. Understanding the effects of home market risks on the relationship between internationalization and performance would also yield interesting insights for firms based in advanced economies, which developed their strategies and capabilities in more stable markets but operate in emerging markets (Wright et al., 2005).

This study contributes a better understanding of the regionality of internationalization in the context of emerging economies by illustrating that, although internationalizing within the region might yield benefits, internationalizing outside of the home region allows for additional advantages for emerging market firms. Extending the "institutional escapism" arguments (Boisot & Meyer, 2008; Yamakawa et al., 2008), we argue that operating in multiple regions allows emerging market firms to protect themselves from the regional domino effects of political risk events. Additionally, emerging market firms might access resources and markets that are not available within their region, which can support the firm's competitiveness both at home and abroad (Cuervo-Cazurra, 2011). Firms based in advanced economies are likely to be embedded in regions where factor markets are sophisticated, and hence expanding within the region would suffice to provide access to the sort of resources and markets they might not have at home. Firms based in emerging economies, on the other hand, might find that neighboring economies within the region also suffer from similar constraints, for example, scarcity of certain skills and input suppliers in the case of Latin America, and thus benefit more from extra-regional internationalization (Santiso, 2007; Thorp, 1998; Ciravegna et al., 2014; Aguilera et al., 2017).

Drawing from the organizational learning theory perspective, the learning experienced at home provides these firms with the ability to manage uncertainty, learned through their specific experiences. This capability is a form of contextual knowledge, applicable to the diverse situations that these firms might face when operating in multiple regions (Fiol & Lyles, 1985; Argote & Miron-Spektor, 2011). However, experiential knowledge accumulation occurs discretely, so that the specific routines Latin American firms develop to manage uncertainty differ from those of firms based in low-uncertainty regions, and also firms based in other high-uncertainty regions, precisely because context uncertainty manifests itself in very different ways – political risk, for example, might be related to ideological as well as ethnic and religious frictions (Henisz, 2000). It follows that firms based in a high political risk region, such as Latin America, are likely to operationalize their uncertainty management capability in similar ways within the region, and differently from firms based in other regions, because the latter acquired knowledge via very different experiences. Thus, a firm based in a high uncertainty country that internationalizes outside of its region might find that deploying its uncertainty management capability supports its performance more when it invests outside of the home region, because the organizational knowledge it uses to compete is different to that acquired by local incumbents. This is in line with the observation that emerging market firms may compete differently from advanced economies firms, occasionally internationalize more aggressively, targeting markets outside of their immediate region, engage in advanced internationalization operations while still relatively new, and develop advantages from their home context features (Cuervo-Cazurra, 2012; Hennart, 2012).

Finally, operating outside of the home region exposes a firm to different experiential learning opportunities, which it can use to refine and complement the uncertainty management capability developed at home. Experiences in different regions can also provide the firm with ideas about different ways of leveraging its uncertainty management capability to support performance, which they would not have come across with if they remained within the home region.

Empirically, we provide new insights on the relationship between context, internationalization, and performance of firms based in Latin America. Despite its importance in international trade networks and the proximity to the large American market, there are very few studies of internationalization of the

American companies in the literature (Perez-Batres, Pisani, & Doh, 2010; Cuervo-Cazurra, 2016). Part of the reason for the positive study seems to be the lower level of development of the scholarship with the Latin America, with most academics focusing on teaching and from managers rather than on developing research that is published in international journals (Carneiro et al., 2016). We contribute to the literature by not only analyzing companies in Latin America, but also by highlighting how one can use the conditions of these countries is a natural laboratory for extending existing theories of international business and reveals new insights on a core debate.

Managers of firms based in economies affected by high uncertainty should consider that internationalizing their operations can—and does—help to improve performance when political risk increases at home, though the effect is strong only for firms internationalizing outside of their home region. Becoming international can allow managers to redeploy firm-specific advantages acquired at home, and in particular the organizational routines they developed to manage uncertainty, which makes them more resilient and adaptable in foreign markets.

This study has some limitations that can be addressed in future research. First, the paper analyzes publicly traded firms because private firms rarely disclose financial information. Publicly traded firms tend to be the largest in the country and are subject to additional scrutiny by financial markets. Future research can analyze the behavior of small firms and of private firms that may react to political risk and corruption and internationalize differently. Second, we study firms from four countries in Latin America because the similarities among countries facilitate comparisons and this has been an understudied region of the world. Future research can analyze firms in other regions, especially advanced economy firms, and compare their findings to the ones presented here, taking into account the variation in uncertainty in their home countries. Third, the measures we have are constrained by the availability of data, and thus we do not have specific measures for managerial experience, FDI drivers, and capabilities for dealing with political risk and corruption. We also do not have data on the intensity of internationalization, such as the percentage of revenues coming from abroad. Future studies can survey managers to get a sense of their ability to deal with uncertainty in the home country, although given the sensitive nature of the topics the surveys may find it challenging to arrive at the appropriate measures.

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Figure 1. Analytical framework

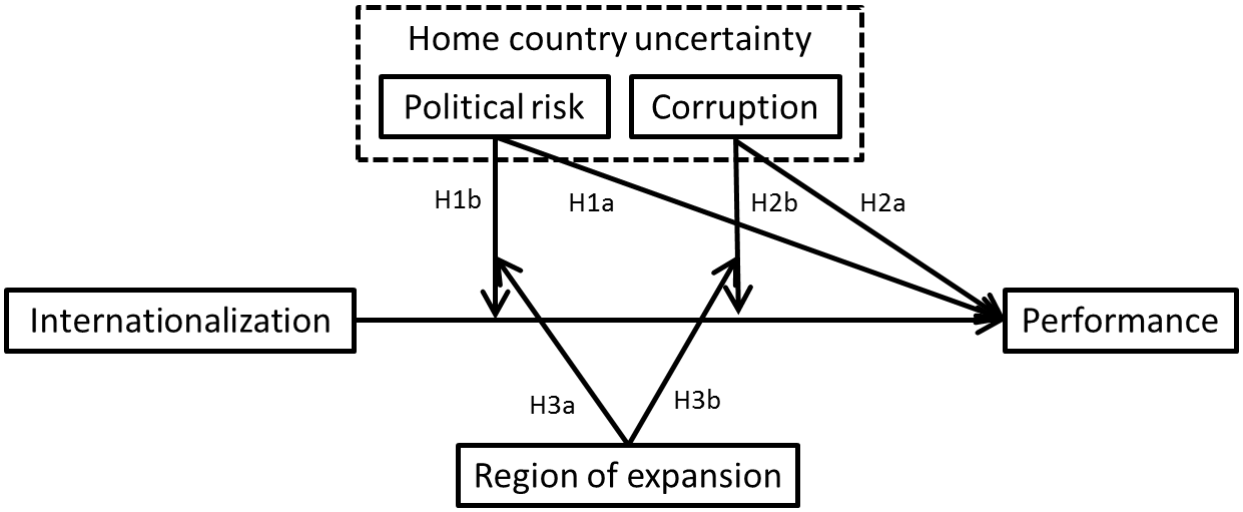

Table 1. Variables and Measures

Variable	Measure	Value
Profitability	Earnings before taxes, interest and depreciation divided by total assets and multiplied by one hundred	Continuous
International	Dummy variable that equals 1 if the firm has international operations	0 or1
Regional Internationalization	Dummy variable that equals 1 if the firm has international operations in Latin American countries only	0 or 1
Non-Regional Internationalization	Dummy variable that equals 1 if the firm has international operations in countries outside Latin America	0 or 1
Political Risk	Political Risk Index (PRS) from the Political Risk Services International Country Risk Guide, rescaled so that the higher the score, the more risk the country has	0 to 1
Corruption	Transparency International's Corruption Perceptions Index, rescaled so that the higher the score, the more corruption the country has	0 to 100
International Experience	Number of years since the company began international operations	Positive
Age	Years since the company was first established	Positive
Size	Log of total assets in US$	Positive
Business Cycle	GDP growth. Defined as the difference in GDP in current US$ for the year and previous year divided by GDP in current US$ in the previous year.	Continuous
Openness	Sum of total Imports in current US$ and total Exports in current US$ divided by GDP in current US$	0 to 1
GDP per capita	Gross domestic product in thousands of US$ divided by total population	Positive
Natural Resource Base	Dummy variable that takes the value of 1 if the firm is in the agriculture and fishing, mining, and oil and gas industries	0 or 1
Manufacturing	Dummy variable that takes the value of 1 if the firm is in the iron and steel, textiles, and chemical industries	0 or 1
Service	Dummy variable that takes the value of 1 if the firm is in the transportation, telecommunication, and other services industries	0 or 1
Year Controls	Specific country year dummy variables that correspond the years that general elections took place in each country: Brazil in 1998, 2002, 2006, and 2010; Chile in 1999, 2005, and 2009; Peru in 1995, 2000, 2006, and 2011, Argentina in 1995, 1999, 2003, 2007, and 2011. The first year for each country was used as base observation.	0 or 1

Table 2. Descriptive Statistics by Country

	Argentina		Brazil		Chile		Peru		Full Sample	
Number of observations	690	690	2775	2775	1405	1405	863	863	5733	5733
	MEAN	STD	MEAN	STD	MEAN	STD	MEAN	STD	MEAN	STD
Profitability $_{i,t}$	7.17	8.54	6.48	9.51	5.82	7.19	8.49	9.21	6.70	8.87
International $_{i,t-1}$	0.18	0.49	0.48	0.45	0.50	0.50	0.63	0.50	0.47	0.50
Regional Internationalization $_{i,t-1}$	0.13	0.34	0.23	0.42	0.31	0.46	0.32	0.47	0.25	0.43
Non-Regional Internationalization $_{i,t-1}$	0.05	0.22	0.25	0.43	0.20	0.40	0.31	0.46	0.22	0.42
Political Risk $_{i,t-1}$	0.79	0.06	0.73	0.03	0.78	0.06	0.60	0.04	0.73	0.08
Corruption $_{i,t-1}$	68.87	7.23	63.24	3.82	30.86	6.89	63.30	4.92	55.99	15.39
Age $_{i,t}$	45.56	40.63	45.22	29.44	44.46	37.93	38.84	32.57	44.00	33.36
Size $_{i,t}$	12.71	1.60	12.43	1.93	12.31	1.88	11.88	1.54	12.34	1.87
Business Cycle $_{i,t-1}$	0.04	0.06	0.03	0.02	0.04	0.03	0.06	0.03	0.04	0.03
Openness $_{i,t-1}$	0.37	0.09	0.24	0.04	0.66	0.07	0.42	0.08	0.36	0.18
GDP per capita $_{i,t-1}$	7114.46	2449.26	6746.32	3213.72	8275.31	3591.24	3570.94	1592.19	6687.34	3370.98
International Experience $_{i,t}$	6.37	18.29	16.03	24.23	12.17	20.45	17.69	20.89	14.56	22.85

Table 3. Number of firms per country and industry

	Argentina	Brazil	Chile	Peru	Total
Natural Resource Based	13	19	25	27	84
Manufacturing	12	42	8	13	75
Service	21	109	59	19	208
Others	26	81	36	26	169
Total	72	251	128	85	536

Table 4. Correlation Matrix

Variable	1	2	3	4	5	6	7	8	9	10	11	12
1 Profitability $_{i,t}$	1.00	**0.06**	**0.01**	**0.06**	**-0.07**	**0.05**	**0.06**	**0.16**	**0.07**	0.01	-0.03	**0.06**
2 International $_{i,t-1}$		1.00	**0.61**	**0.57**	**-0.13**	**-0.06**	**0.21**	**0.11**	0.02	**0.04**	**-0.05**	**0.62**
3 Regional Internationalization $_{i,t-1}$			1.00	**-0.31**	**-0.05**	**-0.09**	**0.08**	**0.07**	0.02	**0.08**	-0.01	**0.26**
4 Non-Regional Internationalization $_{i,t-1}$				1.00	**-0.10**	0.01	**0.18**	**0.06**	**0.00**	-0.04	**-0.05**	**0.47**
5 Political Risk $_{i,t-1}$					1.00	**-0.26**	**0.04**	**0.06**	**0.00**	**0.31**	**0.03**	**-0.09**
6 Corruption $_{i,t-1}$						1.00	-0.01	0.02	-0.02	**-0.60**	**-0.22**	**0.03**
7 Age $_{i,t}$							1.00	-0.02	-0.02	0.01	**0.03**	**0.41**
8 Size $_{i,t}$								1.00	**-0.03**	**-0.04**	**0.32**	0.01
9 Business Cycle $_{i,t-1}$									1.00	**0.27**	**0.08**	-0.01
10 Openness $_{i,t-1}$										1.00	**0.24**	**-0.05**
11 GDP per capita $_{i,t-1}$											1.00	**-0.03**
12 International Experience $_{i,t}$												1.00

Note: Bolded coefficients are statistically significant.

Table 5. Regression Results

	(1)	(2)
Intercept	7.861*	7.910*
	(0.542)	(0.542)
International $_{i,t-1}$	0.402*	
	(0.506)	
Regional Internationalization $_{i,t-1}$		0.421+
		(0.557)
Non-Regional Internationalization $_{i,t-1}$		0.616
		(0.869)
Political Risk $_{i,t-1}$	-1.364**	-1.378**
	(0.351)	(0.383)
International $_{i,t-1}$ *Political Risk $_{i,t-1}$	1.827**	
	(0.501)	
Region. Int. $_{i,t-1}$ *Political Risk $_{i,t-1}$		1.687
		(0.927)
Non-Region. Int. $_{i,t-1}$ *Political Risk $_{i,t-1}$		2.019**
		(0.652)
Corruption $_{i,t-1}$	1.371**	1.358**
	(0.403)	(0.405)
International $_{i,t-1}$ *Corruption $_{i,t-1}$	-0.328	
	(0.439)	
Region. Int. $_{i,t-1}$ *Corruption $_{i,t-1}$		-0.483
		(0.532)
Non-Region. Int. $_{i,t-1}$ *Corruption $_{i,t-1}$		-0.742*
		(0.340)
Age $_{i,t}$	0.976**	1.128*
	(0.347)	(0.346)
Size $_{i,t}$	1.509**	1.521**
	(0.392)	(0.398)
Business Cycle $_{i,t-1}$	0.431**	0.482**
	(0.140)	(0.144)
Openness $_{i,t-1}$	1.689**	1.688**
	(0.341)	(0.3845)
GDP per capita $_{i,t-1}$	-1.227**	-1.224**
	(0.255)	(0.253)
International Experience $_{i,t}$	0.107+	0.473+
	(0.488)	(0.493)
Natural Resource Based $_{i,t}$	-1.963+	-2.005+
	(1.055)	(1.073)
Manufacturing $_{i,t}$	-0.963	-0.973
	(0.928)	(0.921)
Service $_{i,t}$	-1.501+	-1.584+
	(0.920)	(0.883)
Year Controls	Included	Included
N	5733	5733
chi2	146.8	227.6
R2	0.137	0.170

Standard errors in parentheses, + p<0.1, * p<0.05, ** p<0.01